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TAGS: ECON PGOV LY
SUBJECT: QADHAFI SONS SQUABBLE OVER COCA COLA

REF: Tripoli 53

CLASSIFIED BY: Gregory L. Berry, Chief of Mission, USLO , Tripoli. REASON: 1.4 (b), (d)

¶1. (C) Summary: A lengthy standoff between the franchise-holder for Coca Cola-Libya, Ka'Mur Bottling Company-U.K., and two of Mu'ammar Qadhafi's sons, Mu'tassim and Mohammed, appears to have stabilized in the wake of a compromise agreement. The problem became public on December 28, 2005 as security troops controlled by Colonel Qadhafi's son Mu'tassim encamped at the Tripoli Coca-Cola plant, owned jointly by Ka'Mur Bottling Company and the Libyan Olympic Committee (LOC) through their joint venture, the Global Beverage Company (GBC). With the plant shut for more than three months, Colonel Qadhafi's daughter Aisha may have intervened to broker a compromise, according to which LOC would--at an unspecified future date--sell its shares in GBC to the Libyan Social Security Fund. Mu'tassim's men left the plant in late February, shortly after USLO sent a strongly-worded diplomatic note to the Ministry of Foreign Affairs expressing concern over the legality of the plant shutdown and urging a swift resolution to the conflict. Coca Cola's General Manager for Libya credits USLO support for helping keep the incident under control as Ka'Mur, GBC and Coca Cola worked their own channels. End Summary.

Long-standing Qadhafi Family Interests Background to Conflict
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¶2. (C) In the late 1990's, Coca Cola distributed its product in Libya under the supervision of the Office of Foreign Asset Control through Al Fursan, a Libyan distributor. At the time, Al Fursan bought product from Coca Cola's plant in Tunisia on consignment and distributed through channels in Tripoli and Benghazi. Mu'tassim may or may not have been directly involved in linking Al Fursan with Coca Cola through Ka'Mur. What seems more likely is that Ka'Mur attempted to build Al Fursan into a partner while the U.S. embargo was still in effect, then severed the relationship when Al Fursan demanded a greater piece of the action, including rights to the franchise. Ka'Mur (whose name is a mixture of "Kawther" and "Murina", two embargo-era Libyan soft drinks) then created the joint-venture between Ka'Mur and LOC, GBC. According to Husni Bey, Chairman of the Husni Bey Group (HBG), Mu'tassim was indeed responsible for bringing Ka'Mur into Libya. (Note: HBG is the agent for U.S. consumer products manufacturer Procter & Gamble). Bey believes Mu'tassim shut the plant down as revenge for Mohammed's "takeover" of Ka'Mur while he (Mu'tassim) was in Egypt, exiled for his role in an act of "insubordination" against his father in the late 1990's.

¶3. (C) Immediately after the formation of GBC, Al Fursan filed suit against Ka'Mur and Coca Cola for breach of contract, and sent correspondence to Coca Cola International claiming that Ka'Mur had stolen the franchise from them. Ka'Mur then filed a counter-suit with the Libyan Court of Appeals, which it won. Al Fursan demanded damages for lost business as well as restitution

of the franchise; the company apparently lost on both counts. Ka'Mur claims it prepared a counter claim for more than the amount demanded by Al Fursan, for materials it says Al-Fursan bought from them prior to the rupture but never settled. Both Bey and Azza Maghur, Ka'Mur's attorney in the counter-suit against Al Fursan and the sister of a close associate of Mohammed Qadhafi, say it is likely that Al Fursan made the initial overture to Mu'tassim after legal efforts against Ka'Mur failed. Both claim Al Fursan's lawyer, Ibrahim Legwell, fabricated allegations against Ka'Mur and inaccurately described the situation and possible consequences Mu'tassim (Note: Maghur showed Econoff documents supporting this claim. As an aside, Legwell and Reema 'Ali, his U.S.-based partner, have been aggressive in courting U.S. corporate clients, even as they denounce U.S. companies as "tools of imperialism").

Threats, Clashes and Interventions

¶4. (C) Abdul Galil Besher, Chairman of the Board of the Coca Cola Bottling Company of Egypt and a member of Ka'Mur's board, requested a meeting with COM on January 19 to discuss an "issue" related to the Tripoli bottling plant. Besher indicated that on December 28, two weeks after the plant began production, "two military cars carrying armed personnel without clear identification illegally broke into the facility, asked the employees to leave the premises and shut down the plant." Kamal Shahata, a member of Ka'Mur's Managing Committee, told USLO during a follow-on meeting two weeks later that during altercations with Mu'tassim's forces, one expatriate worker was slightly injured and some plant materials were destroyed. Early in the crisis, armed men allowed plant managers to enter the premises singly or in pairs, but then barred Ka'Mur and Coca Cola employees completely. In the following weeks, various individuals described by Shahata as "freelancers" attempted to extort shareholdings and/or cash in return for a resolution of the conflict. On February 7, anonymous callers threatened three key Coca Cola employees, all Jordanian nationals, with "political problems" and direct bodily harm. Shehata indicated that Ka'Mur immediately filed complaints with the Shaabiyya (municipality) of Tripoli, the local police station as well as the equivalent of the District Attorney. Shehata and Besher complained that at no time did any Libyan authority offer a legal justification for the plant's shutdown. Shehata and Besher filed for "personal protection" with the Tripoli police and on February 8 visited Mohammed Qadhafi. They report Mohammed Qadhafi declined to get involved personally, yet encouraged Ka'Mur to do "everything within its power to resolve the matter according to Libyan law." Shehata returned to Tripoli the first week of February to meet with Rajab Shiglabu, Chairman of the Libyan Foreign Investment Board (LFIB), under whose authority Ka'Mur began operation in Libya. On February 9, Besher and Shehata requested USLO's assistance in taking Ka'Mur's case to higher-level authorities, stressing the implications for other current and prospective U.S. investors. He insisted the company would accept nothing less than a full and satisfactory legal settlement of the matter, as anything short would expose the company to further risks.

Rumors of Deal Brokering to Resolve Squabble

¶5. (C) On February 20, Econoff received a text message from Kamal Shehata, then abroad, saying that the Libyan authorities had given GBC the green light to re-start production. When Econoff met again with Shehata on February 24, he confirmed that the bottling plant re-opened and was operating at half-capacity. Shehata said that the restart followed a dramatic incident in which men loyal to Mu'tassim abducted and assaulted one of Mohammed Qadhafi's in-laws to "send a signal to The Engineer (Mohammed)." The incident allegedly took place at Mohammed's Gargaresh residence on the night of February 15. According to Shehata, Mu'tassim's associates arrived to Mohammed's residence and began shouting for him to come out. Receiving no response, they left in search of one of Mohammed's cousins, whom they stowed in the trunk of one of their cars and

brought back to the residence. According to Shehata, one of Mohammed's associates, overhearing Mu'tassim raging earlier in the evening, called Ali Mehanna, the founder of Ka'Mur and one of GBC's board members, to urge him to "leave the city (Tripoli), immediately" as Mu'tassim's men were coming for him. "Because they could not find Ali (Mehanna), Mu'tassim's men grabbed Mohammed's cousin instead," said Shehata. Rumors circulated through the business community in the days following the alleged assault that Aisha Qadhafi had brokered a deal between the brothers, obligating Mohammed to sell LOC's shares in GBC, in return for Mu'tassim's leaving Ka'Mur and LBC alone. Shehata denies that Aisha was involved, instead crediting Mohammed with the decision to sell LOC's shares in GBC to the Social Security Fund as a means of lessening tensions with his brother. Shehata, who spoke with Econoff in hushed voice in the lobby of the Corinthia Hotel, said that although he had heard "stories" about doing business in Libya, he "never imagined" that what transpired was still possible here. "You know the movie, The Godfather? We've been living it for the last few months." On March 20, a mid-level manager at the Tripoli plant told Econ/Comm Assistant that Mu'tassim the night before assaulted one of Mohammed Qadhafi's cousins (on his Mother's side), a member of LOC, in an incident that he claimed is directly related to the plant closure. This individual, who spoke on condition of anonymity, said at that time the issue over Coca Cola remained "very much alive." On March 19, a mid-Level (Libyan) manager at the plant told the Econ/Comm Assistant that Mu'tassim had assaulted another of Mohammed Qadhafi's cousins, and that the "compromise" threatened to unravel.

Coca Cola Plant Operating at Capacity Since Mid-April

¶6. (C) Since mid-April, the Coca Cola plant is operating at pre-shutdown capacity. In a March 22 meeting, GBC's General Manager, Azem Yousef, looking visibly under stress, said that despite recent positive developments, he was "not optimistic" about a long-term solution to the dispute. He said the next milestone would be the transfer of shares from LOC to SSF, "hopefully this summer." At the moment, it is unclear who the losers and winners are in the so-called truce: Mohammed is to divest the shares of LOC, Ka'Mur apparently is being forced to accept a greater ownership stake in the company by the U.S. parent and Mu'tassim seems to have gotten nothing (which may be the source of his ongoing discontent). Coca Cola volunteered to participate as a sponsor of several USLO events in the recent Tripoli International Fair, held April 2-12. Yousef told Econoff that the only hope for a lasting solution rests with successful transfer of shares from LOC to SSF, perhaps in June. He added that as far as he was concerned, "Libya is not a place worth doing business." Shahata told Econoff in February that if Ka'Mur had known how much trouble Libya would be, the company would have never entered the market.

Advocacy Efforts on behalf of Coca Cola

¶7. (C) While unlawful seizure and shutdown of a foreign commercial enterprise in Libya is a violation of 1997 Law No. 5 for Foreign Investment, USLO was obliged to take into consideration when responding to Ka'Mur's original complaints the fact that Ka'Mur is not a U.S. entity. To protect the broad interests of a brand representing several million USD in annual sales to a U.S.-based company, USLO met Rajab Shiglabu, Chairman of the Libyan Foreign Investment Board (LFIB) February 20 and asked that the matter be resolved. Shiglabu offered assurances that the case would be mediated through the Libyan justice system and that any dispute would end soon. USLO also met with Under Secretary of the General People's Committe for Economy and Trade on March 16 and was told that "the matter should not concern the U.S.; the Libyan government will determine who should hold the licenses." Two days before the plant re-opened, USLO sent a strongly-worded diplomatic note expressing serious concern over the plant closure and noting the growing risk of severe damage to U.S. investor confidence in

Libya. Yousef, in his March 22 meeting with Econoff, said he was "very grateful" for USLO assistance, indicated that the diplomatic note likely did have a positive effect, and did not think that USLO could push further at this time.

¶8. (C) Comment: The Coca Cola incident is a case study in the involvement of Qadhafi family members directly influencing the flow, pace and nature of economic activity. Family members squabble over personal financial interests with little regard to the possible impact on foreign investors or international public opinion. In this incident, LFIB proved ineffective in enforcing provisions of the 1996 investment law it is charged to implement. Given the number of people who knew of some aspect of this dispute and the plant closure, it is also noteworthy that the news was kept out of the press, other than for a brief mention in the on-line, "dissident" internet website Libya Al-Yowm. All parties involved -- including the foreign companies -- had an interest in keeping things quiet as long as there seemed a possibility of a near-term solution. The Coca Cola squabble is typical of the power struggles likely to continue as the Qadhafi children and other regime elite continue to define (or re-define) their respective spheres of commercial influence (see Septel). The lesson learned for future USG advocacy is that pressure has to be applied to a variety of different entities, given the diffuse nature of the Libyan Jamahiriya ("state of the masses"), and it may be difficult to access information given a cultural bias towards resolving conflict through personal intervention. End Comment.

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